

Inca One helps artisanal miners — and itself

PERUVIAN GOV'T PUSHES TO FORMALIZE SMALL-SCALE GOLD MINING SECTOR

BY GWEN PRESTON

VANCOUVER — Artisanal mining has long been a part of Peru, but in the past 30 years, increasing numbers of people have turned to the rocks of their native land for income. Hundreds of thousands of rural Peruvians now scratch out a living through the back-breaking labour of small-scale mining — and in doing so, produce more than a million oz. gold a year.

It's a feat worth \$1.8-billion annually. The gold is spirited out of the country without being taxed, costing the Peruvian government some US\$500 million in lost revenues. All of this unregulated activity bolsters Peru's illegal drug trade.

Of course, the damage doesn't end there. Small-scale mining is often destructive to the environment: the process may start with clearing swaths of rainforest and can end with the mercury used to extract gold from the rocks either dumped into rivers or burned, polluting the water and air. Child labour is also rampant in artisanal mines.

Several past Peruvian presidents have tried to tackle the issue, with limited success. Alejandro Toledo, president from 2001 until 2006, passed the Law for the Formalization and Promotion of Small-Scale and Artisanal Mining, which was supposed to transform Peru's small miners from an unregulated mass into a structured and regulated industry.

It was a well-intentioned move, but once his administration realized the costs and complexities of the endeavour, they abandoned it.

The next president, Alan Garcia, pretty much ignored the issue completely.

Then Peru's current president, Ollanta Humala, was elected. He had campaigned on a platform of social inclusion, promising to narrow the huge wealth gap that pervades Peruvian society. To support his social spending, Humala needed to find new sources of tax income.

A million ounces of untaxed gold? Suddenly formalizing Peru's small-scale mining sector once again became a national priority. Adding to its appeal, the move to formalize small-scale mining — once complete — should be a triple win for Humala: regulated artisanal miners

will pay taxes, cause less damage to the environment and employ far fewer child labourers.

But how does one go about formalizing a \$2-billion shadow sector? It is a complicated and lengthy process. But it is also one that creates opportunities for those willing and able to jump into the fray. **Inca One Resources** (IO-V) is just such a company.

Peru's artisanal miners come in all shapes and sizes, from individual labourers with a pick and a bucket to extended families that have long supported themselves ounce by golden ounce, to structured co-operatives with shared costs



INCA ONE RESOURCES

Ruben Aguilaro, who will be managing underground operations at Inca One's Corizona gold project, pans for gold while taking visitors on project tour.

THE NORTHERN MINER

THE GLOBAL
MINING
NEWSPAPER

www.northernminer.com

MARCH 4-10, 2013 • VOL. 99, NO. 3 • SINCE 1915

and revenues. As for definitions, miners are considered small-scale if they produce less than 350 tonnes of ore daily.

Aside from a few larger groups that formalized themselves under Toledo's law in 2002, most of these miners remain informal, which means their operations are not registered, regulated or taxed.

There is, however, one important divide within Peru's small-scale miners: that between informal and illegal miners. Informal miners own the mineral rights to the lands they are mining—they just don't have permits for their operations. These are the operations that Humala is trying to formalize.

Illegal miners, on the other hand, do not own mineral rights to the lands they mine. These operators move in quietly and work an area until they are discovered and kicked out.

President Humala realized from the get-go that trying to stop informal mining in his country was out of the question. There are simply too many small-scale

miners — estimates of the number run as high as 400,000.

But formalizing the system is no easy task. Many artisanal miners are poor, average literacy rates are low and many mining areas are isolated and difficult to monitor.

So Humala introduced a law that required small-scale informal miners to formalize, but gave them lots of time to do it.

In April 2012 Humala's government started the clock on a two-year amnesty period. Within the first seven months of that period — by last November — miners were required to register with the government. Registering was the first step in becoming recognized miners, but registering did not mean miners had to immediately comply with formal mining regulations.

Instead, registered miners have until April 2014 to jump through the rest of the hoops, which include reams of

paperwork and completing baseline environmental studies, archaeological studies and community town-hall meetings. If a miner or group of miners manages all of that, they will become formal miners and can continue operating their concessions, though once formalized they will have to operate within pertinent environmental, social and tax-related regulations.

Miners who do not jump through these hoops during the amnesty period will end up back where they started: as informal miners. However, Humala is unlikely to let informal miners continue operating as before once the formalization window has passed. He started cracking down on illegal miners last year. In December, with the formalization registration period over, police began evicting and charging unregistered informal miners as well.

The first part of the process went well: 77,000 informal miners registered to become formal miners. That's an impressive number, but it begs two questions.

First, how many did not register? Peru's mining ministry does not know exactly, but figures the number sits somewhere between 100,000 and 300,000. Clearly, formalizing this entire sector will take several tries.

Second, how many of those who registered can reasonably be expected to follow through and formalize? Some of those who registered almost always did so without any plan to complete the process, they'd like to operate for the next two years without issue. Many others may want to formalize but will find themselves unable to manage all of the tasks involved.

Peru's mining ministry is not shying away from these charges, acknowledging that it expects that less than half of those registered will pursue formalization. As a target, the government hopes that 30,000 of the 77,000 registered miners will complete the process.



INCA ONE RESOURCES

Consulting geologist John Buckle (second from left) takes a group of investors on a tour of the underground workings at Inca One Resources' newly acquired Corizona gold project in Peru.

THE NORTHERN MINER

THE GLOBAL
MINING
NEWSPAPER

www.northernminer.com

MARCH 4-10, 2013 • VOL. 99, NO. 3 • SINCE 1915

Helping small-scale miners formalize: A win-win-win

This is the part of the process where Vancouver-based junior Inca One enters the picture.

Inca One has been advancing its Las Huaquillas property in northern Peru for several years. Las Huaquillas is home to a historic gold-silver resource and bears lots of exploration potential. Inca One has conducted initial exploration work on the property and recently submitted an environmental impact statement to the authorities, the approval of which will allow the company to start drilling.

In short, Las Huaquillas is a conventional exploration property, one that will not start generating cash flow for the company for many years. In today's markets it is challenging to only have projects that require money and none that produce money. As such, Inca One started thinking about how it could generate some near-term cash flow.

At around the same time, Humala was embarking on his formalization push. Something clicked for Inca One's president and CEO, Edward Kelly.

"I've been going down to Peru regularly for the past couple of years," he said in an interview. "We realized that this formalization is quite a process—it takes time and it takes money, and it takes know-how. Typically these miners are not highly educated, and so they don't in general know how to get through the process. We, on the other hand, are experts in social capital."

Thus was born Inca One's new near-term business plan: find small-scale miners with prospective projects who want to sell their operations rather than attempting the obstacle course of formalization.

The company has had no trouble finding projects to assess that fit the bill, and in early February Inca One announced its first small-scale mine acquisition: the

company is paying US\$1.95 million over 22 months to buy the Corizona property, a land package 85 km from Lima that covers a large hydrothermal system with at least eight gold-bearing veins. An extensive network of artisanal workings and pits stretch out along 1.2 km of prospective strike, including more than 200 metres of underground workings.

"It's a great project, but it's been in the same family for forty years, and they realized that they don't have the know-how or the energy to go through this formalization process," Kelly says. "So they decided it would be best to sell the property to someone else, who could get through the process and get it into proper production."

That is precisely what Inca One plans to do. The family registered Corizona for formalization, so Inca One can continue mining up to 350 tonnes of ore per day at the site during the amnesty period while they jump through the formalization hoops.

Mining will provide two benefits. For one, Inca One will gain greater understanding of the geology at Corizona. For another, mining means making money.

"That's where our strength is—gaining ownership of great projects through this window of opportunity that formalization has created," Kelly says. "We've identified a few other projects as well, and we're in negotiations on those. We aim to string together four or five of these small projects and get into production, which will mean immediate cash flow."

The milling side of the story

Peru's small-scale miners use one of two methods to monetize their ore. Most miners, especially individuals or small groups, simply use mercury. Mercury forms an amalgam with gold that is easy to separate from gangue minerals.

Mercury processing has long-term negative health effects for miners and

their families, and is highly damaging to the environment. Miners generally heat the amalgam to burn off the mercury and isolate the gold, resulting in high levels of atmospheric mercury. Waste mercury is also regularly dumped onto the ground or into rivers and lakes.

Other artisanal operators take their ore to a toll mill, which buys each bag of rocks based on a rough estimate of the grade—and therefore the value—of the ore. Toll milling beats mercury in terms of health effects and environmental damage, but with no way to assess the amount of gold in a bag of rocks, miners are often underpaid for their ore.

The formalization process is also trying to improve this aspect of the industry. To formalize, miners will have to prove that they have a mill to take their ore. In turn, mills that process ore from small-scale miners can be fined if they take ore from unpermitted operators.

The end result should be a significant reduction in mercury usage, since formalized operators will be required to take their ore to a mill. This, Kelly realized, creates another opportunity for Inca One: being a toll miller.

The company is also working to secure permits to build a new mill and angling to buy a built, permitted mill. A mill would enable the company to process its own ore from Corizona, as well as toll-mill ore from local small-scale miners.

"We see it as an opportunity to help them, while gaining benefit ourselves," Kelly says. "We would throw a lifeline out to them and say: 'We will help you do the paperwork and become formalized, but in the end we want to be able to buy your ore and process it.' It will be a win-win-win for them, for us and for the government."

Kelly says the other projects Inca One is interested in buying are all in the same general area, so the mill would serve as a

**AUTHORIZED
REPRINT**

THE NORTHERN MINER

THE GLOBAL
MINING
NEWSPAPER

www.northernminer.com

MARCH 4-10, 2013 • VOL. 99, NO. 3 • SINCE 1915

central-processing facility for all of the company's small-scale mines.

When asked about the opportunity in formalization, Kelly pointed to the sector's size.

"This is a billion-dollar industry on the informal side, and that's just counting the

gold and neglecting the silver and copper that are also mined," he says. "This is simply a great opportunity for us, and there is no shortage of potential projects and partners."

He adds that "our office down there says it's endless, absolutely endless.

There are people who call two or three times a day saying 'Buy our ore,' or 'Come look at our project.' We're really excited about what we might be able to accomplish, and in a short period of time."